TEXAS PUBLIC POLICY FOUNDATION

Testimony

March 18, 2009

Testimony to the Senate Transportation and Homeland Security Committee on SB 855 and SB 942

Local Option Transportation Legislation

by Justin Keener
Vice President of Policy & Communications

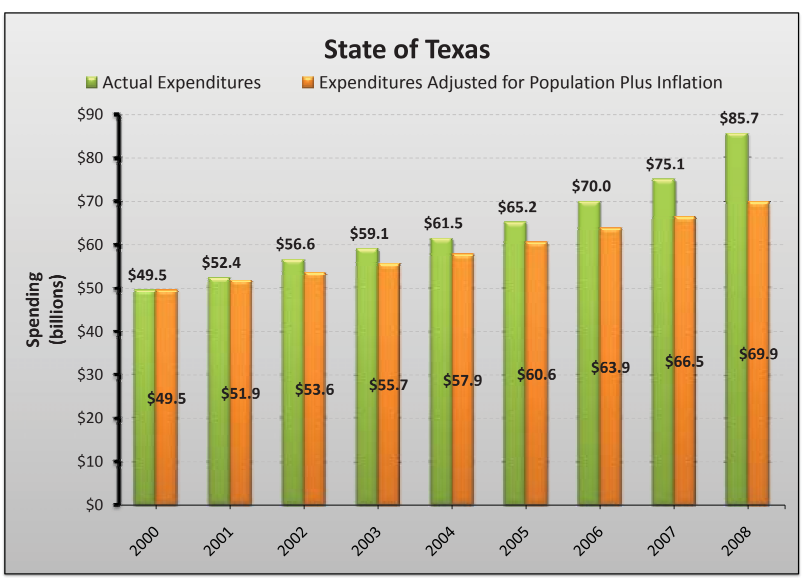
The Texas Public Policy Foundation recognizes the difficult challenge faced by the Texas Legislature in attempting to address our state's transportation needs. Traffic congestion and deteriorating roads have highlighted a growing problem that requires action at all levels of government.

We are extremely supportive of the ongoing leadership by Chairman Carona and other mobility advocates to end funding diversions from transportation revenue. Taxpayers expect that their fuel tax dollars are being spent to improve transportation infrastructure, but that is clearly not always the case, as more than $1 billion is diverted each year to non-transportation purposes.

While there is near unanimity in recognizing the problem our state faces in transportation, we are in fundamental disagreement on the next course of action. The Foundation is against any mechanism that would create an additional burden on the taxpayer for several reasons—most notably because we cannot look at this issue in a vacuum. We must recognize that it is part of a much larger discussion of how much revenue government should take in order to perform its functions, and to what extent those taxes impede or damage our economic recovery and return to economic prosperity.

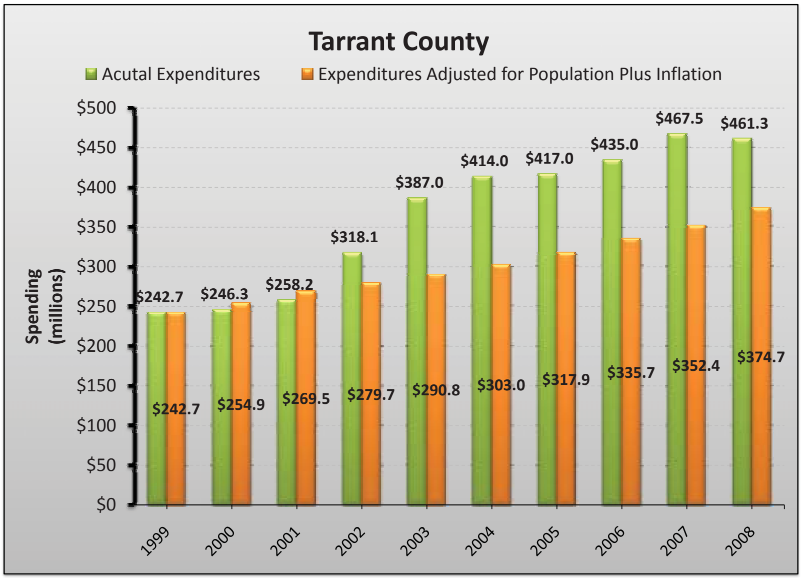
While this position has been characterized as not recognizing the need for a pragmatic solution, we believe it is precisely the guiding principle that should lead any discussion of taxation—whether for transportation, education, public safety, or any other issue.

At Sen. Carona's request, we participated in a conference call between him and our board. Attached to this testimony is our letter to him following that conversation. Our greatest concern, as we related to him on why we cannot support any tax increase at this time, is that while there are calls from cities and counties to address the transportation "crisis" by increasing the amount of revenue generated from taxpayers, we think there should be a more comprehensive review of current spending priorities. For the past several years, state and local governments have spent at a rate that exceeds their actual growth: this is a trend that should be restrained, not magnified.



For more information on the state's budget, please visit http://www.lbb.state.tx.us/

900 Congress Avenue
Suite 400
Austin, TX 78701
(512) 472-2700 Phone
(512) 472-2728 Fax
www.TexasPolicy.com



Financial statements prior to FY 1999 were not available at the time of publication. For more information, please visit http://www.tarrantcounty.com/eBudget/site/default.asp

Between 2000 and 2008, the state's total budget grew by 73.1 percent from $49.5 billion to $85.7 billion, while the sum of population plus inflation only increased by 41.3 percent over the same period. The discrepancy between spending and the population plus inflation measure is even more distinct at the local level.

From fiscal year 1999 to fiscal year 2008, Tarrant County's budget nearly doubled from $242.7 million to $461.3 million, a 90.1 percent difference in just seven years. Yet, population plus inflation over the same period grew by only 54.4 percent.

In Dallas, the city's 2003 budget shows a total adopted budget figure of $1.7 billion. By 2008, the city's budget had grown to $2.7 billion—an increase of 54.5 percent. Perhaps this could be justified if the city needed the extra funds to maintain essential services for a rapidly growing population, but the data indicates that was not the case. From 2003 to 2008, the sum of population plus inflation increased by only 25 percent.

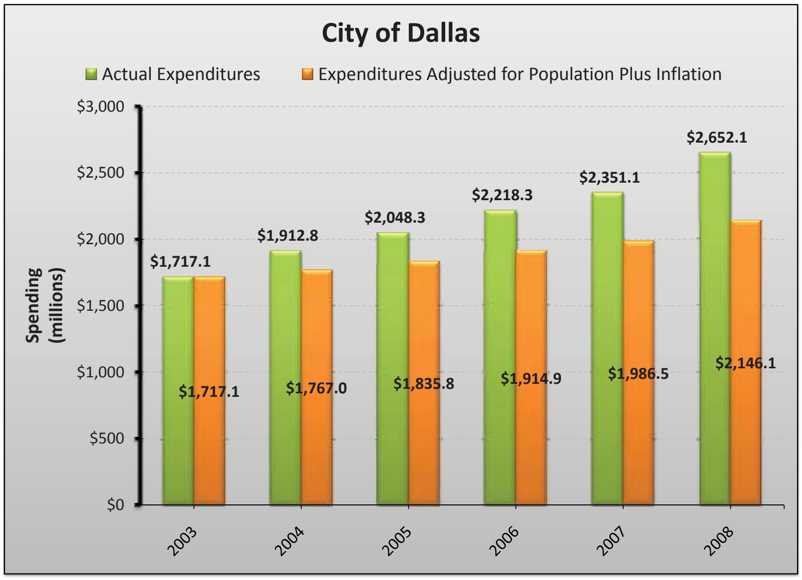
This is further exacerbated by the destructive trend of government expansion at the federal level. Between 1983 and 2000, the federal government's spending relative to GDP fell from 23.5 percent to 18.4 percent. It increased to 20.9 percent last year, and could reach 28 percent this year. According to some reports, total federal government spending in 2010 may approach 40 percent of GDP.

Local, state, and federal spending are clearly excessive—growing at a rate faster than justified and becoming a tremendous anchor to our economy. We respectfully submit that taxpayers deserve for this information to be taken into consideration when listening to calls for tax increases. This excessive spending highlights a need for all governments to consider prioritizing their current available revenue, rather than opting to increase existing tax burdens.

Many local communities maintain options to address transportation, and have chosen to not make it a priority for their community. State law currently provides that cities can levy up to 1 cent of local sales tax for transportation. Yet within the DFW Metroplex, only 20 out of 225 cities, representing approximately 55 percent of the population, are members of DART, The T, or DCTA. The other 220 cities choose to fund (or not fund) priorities such as economic development.

For those cities and counties that do not levy this fee, they also have the option of funding transportation from their traditional revenue sources. When looking at the data above, it is clear many have chosen to significantly expand government expenditures—potentially at the expense of transportation.

Making prudent taxing and spending decisions is critical to our state's economic condition. Last fall, the Texas Public Policy Foundation commissioned internationally renowned economist Dr. Arthur Laffer to identify which factors contributed to Texas' economic dominance over other states. His finding: states that pursue pro-growth economic policies—low taxes, appropriate regulations, and disciplined spending—experience higher income and population growth, lower unemployment, and rising housing values.



Adopted budget information prior to FY 2002-03 was not available at the time of publication. For more information, please visit http://www.dallascityhall.com/Budget/budget_0708.html

Raising taxes on top of government spending that is growing faster than our needs will not lead to prosperity. As *The Wall Street Journal* noted in its March 3, 2009 editorial, "And every risk taker and investor now knows that another tax increase will slam the economy in 2011." While this editorial was in reference to federal spending, the effect to the taxpayer and the market is the same—that the Texas Legislature is considering a decision that could make it more costly to move to, live in, and work in, our state.

Beyond these general issues, there are several other matters particular to this legislation that deserve further attention. These include: no minimum election turnout requirement; no mechanism to provide relief if excess funds are collected; no ban on use of these funds for lobbying; no ban on use of these funds for advocacy on ballot initiatives; no authority specifically given to the comptroller and state auditor to audit any entity receiving these funds; no meaningful transparency mechanisms such as posting check registers online—as the state, Dallas ISD and Collin County currently provide; and of significant concern is the apparent lack of a separate vote required to authorize the indefinite collection of a new tax for maintenance and operations.

Our understanding is that a future version of the bill will remove the indexing feature from the gasoline tax and add a sunset provision.

As we committed in our letter to Chairman Carona, we stand ready to work with him and with this committee to perform a sweeping analysis of current transportation funding sources in order to provide a more permanent solution that addresses our transportation needs without creating excessive tax burdens that do further harm to our economy. ✩

Enclosures:

- March 12, 2009 letter from TPPF President Brooke Rollins to Chairman Carona
- March 6, 2009 letter from TPPF Vice President Justin Keener to legislative leadership

About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute guided by the core principles of individual liberty, personal responsibility, private property rights, free markets, and limited government.

The Foundation's mission is to lead the nation in public policy issues by using Texas as a model for reform. We seek to improve Texas by generating academically sound research and data on state issues, and recommending the findings to policymakers, opinion leaders, the media, and general public.

The work of the Foundation is primarily conducted by staff analysts under the auspices of issue-based policy centers. Their work is supplemented by academics from across Texas and the nation.

Funded by hundreds of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

Texas Public Policy
FOUNDATION
Celebrating 20 Years

900 Congress Ave., Suite 400 | Austin, Texas 78701 | (512) 472-2700 phone | (512) 472-2728 fax | www.TexasPolicy.com

Texas Public Policy
FOUNDATION

March 12, 2009

The Honorable John Carona
Texas Senate
Texas Capitol, Room 4E.2
Austin, Texas 78701

Re: March 10th transportation discussion

Dear Senator Carona:

Thank you for reaching out and taking time to discuss your legislation intended to improve transportation infrastructure in Texas. I believe our call on Tuesday was very productive, helping to clarify your intent to empower local communities, as well as providing the Foundation the opportunity to share concerns about your two pieces of legislation that would raise the gas tax statewide and allow a separate increase in taxes and fees in the DFW Metroplex.

We appreciate your desire to reduce traffic congestion and agree that transportation is an important issue that Texas policymakers must address. While we clearly disagree on the best way to meet those ends, we share a common desire to make Texas a great place to live and work.

As we discussed on the call, the Foundation does not see a need for government to increase taxes to reduce traffic congestion. As you are aware, state government spending between 2003 and 2008 increased 45 percent, from $59.1 billion to $85.7 billion. More locally, from 2005 to 2007, Dallas County's general fund expenditures ballooned by 16.5 percent, in spite of the fact that the county's population only grew 2.7 percent during the same period, according to the latest data available from the Census Bureau. And from 2005 to 2007, Tarrant County's general fund expenditures grew 19.5 percent despite the county's population growing by only 6.1 percent.

Spending at the state and local levels has been excessive in light of the fact that the state's population has only grown 9.9 percent from 2003 to 2008, according to the Census Bureau. If the state and local communities believe transportation is in crisis, we suggest that this excessive spending be diverted to transportation funding.

Along these lines, we enthusiastically agree with you that the state must end the practice of diverting transportation funds to non-transportation purposes. You have been a vocal leader on this issue and we look forward to helping you raise awareness of the need to fix this problem.

As we agreed during our call, we look forward to working with your office to identify a path forward to address our state's transportation problems. While we will have to agree to disagree in the short-term on raising taxes to fund transportation spending, we do believe that a long-term collaborative approach will prove beneficial for the development of sound public policy.

To begin that research process, and to help us understand the scope of your current plan that you said could solve the DFW transportation problem, we would appreciate receiving any analysis related to the rail plan's ability to reduce traffic congestion, and the amount of revenue you expect to be generated from your legislation.

Thank you again for your commitment to improving our state, and for reaching out to us on this very important matter. We will continue to be in contact with your office, and please do not hesitate to call if we can address any concerns or questions you may have.

Sincerely,

Brooke Rollins
President

Texas Public Policy
FOUNDATION

March 6, 2009

The Honorable David Dewhurst
Lieutenant Governor, State of Texas
Texas State Capitol, Room 2E.13

The Honorable Joe Straus
Speaker, Texas House of Representatives
Texas State Capitol, Room 2W.13

Dear Gov. Dewhurst and Speaker Straus:

This week's employment news leaves little doubt that Texas will be hit harder by the national recession than we previously thought.

The Texas Workforce Commission reports that our state lost more than 75,000 jobs in January, with our unemployment rate increasing by almost one full percent. According to the attached *Dallas Morning News* article, the Federal Reserve Bank of Dallas will soon provide an updated estimate that projects Texas could lose almost 300,000 jobs this year, with our unemployment rate topping 8 percent. While Comptroller Susan Combs believes our economy is more resilient, she has increased her estimate of Texas' job losses this year from 111,000 to 180,000.

With Texas businesses and families facing such economic stress, our state government needs to send a clear message that it understands their plight and will not add to their financial burdens. We must not send any signal to the markets, businesses, or public that Texas is even thinking about raising taxes. But sadly, that is precisely the signal that the Texas Legislature is sending through the statewide and multiple local tax increases that have been filed this session.

Senate Transportation and Homeland Security Chairman John Carona has indicated that he will schedule his SB 855 for public hearing very soon. This proposal, and its companion bill – HB 9 by Rep. Vicki Truitt – would create a mechanism that could impose substantial tax increases for anyone living in or moving to the Dallas/Fort Worth Metroplex.

Among the new taxes that could be imposed on North Texas residents under this plan: Up to a $250 "new resident roadway impact fee" charged to people moving into DFW from another state or country; up to a $60 vehicle registration fee; up to a $1 hourly parking fee; up to a $15 vehicle emissions fee; a doubling of the driver's license fee from $24 to $48; and a local gasoline tax that could start as high as 10 cents/gallon and, depending on the bill's language that is currently in question, would automatically rise each year *in perpetuity* with the rate of highway construction inflation.

Advocates claim these are user fees, but this is incorrect. If these were user fees, the proposed regional rail system would be paid for by its riders, just like a toll road relies on tolls from its drivers. Registering a vehicle, parking, and holding a driver's license have no correlation to the amount one drives, if one drives at all.

The bill's requirement for local voter approval provides no comfort since these proposals hide from taxpayers the reality that the legislature already diverts more than $1 billion from highway funding to pay for non-transportation purposes from narcotics enforcement to Medicaid

900 Congress Ave., Ste. 400 • Austin, TX 78701 • (512) 472-2700 • Fax (512) 472-2728 • www.TexasPolicy.com

programs. Within the past year, Gov. Perry, Lt. Governor Dewhurst, and then-Speaker Craddick pledged to end these diversions, and we hope this continues to be the case.

Many Texans' livelihoods are hanging in the balance, and tax increases of this magnitude could cause their jobs to vanish. Instead of a tax-first posture, the Texas Legislature is encouraged to exhaust all other options, such as ending transportation funding diversions, identifying cost savings, and relying on true user fees such as tolls and train fares, before forcing Texans – current and prospective – to dig further into their wallets.

I'm sure you saw our "Competitive States" report from last fall, which TPPF commissioned from internationally renowned economist Dr. Arthur Laffer to identify the factors that contributed to Texas' economic dominance over other states. His finding: states that pursue pro-growth economic policies – low taxes, appropriate regulations, and disciplined spending – experience higher income and population growth, lower unemployment, and rising housing values.

Texas has a great story and stands as a model for other states. Through smart governance and fiscal restraint, you and our other state leaders created an environment that allowed Texas to become America's leading job creator last year. While our state will not escape the national recession unscathed, Texas' relative fiscal prudence since 2003 has proven to be our deliverance from the financial ruin faced by states such as California and Kansas.

Raising taxes right now – whether through SB 855, any of the other local-option tax increases, the statewide gas tax increase, or any other proposals – would signal that Texas has forgotten the secrets to our recent successes. The attached *Wall Street Journal* editorial highlights the dangers of raising taxes during this time, in very clear terms:

"And every risk taker and investor now knows that another tax increase will slam the economy in 2011..." –Editorial, Wall Street Journal, March 3, 2009

While this editorial references proposed federal tax increases, citizens' pockets become just as empty being pilfered by a state tax collector as one from Washington, D.C.

We urge you to join with us in sending a message to Texas citizens and employers that the state has no plans to take more of their hard-earned money, and that instead, government will do the heavy lifting necessary to make sure that Texans' tax dollars are being spent wisely.

Sincerely,

Justin Keener
Vice President of Policy and Communications

Cc: Members of the 81st Texas Legislature
The Honorable Rick Perry, Governor

Enclosures: "Dallas Fed estimates Texas may reach 8% unemployment," *Dallas Morning News*, 3/4/09
"The Obama Economy," *Wall Street Journal*, 3/3/09
Competitive States: Texas v. California, Texas Public Policy Foundation, August 2008, (http://www.texaspolicy.com/pdf/2008-09-CompetitiveStates-laffer.pdf)

THE WALL STREET JOURNAL.

TUESDAY, MARCH 3, 2009

OPINION: REVIEW & OUTLOOK

The Obama Economy

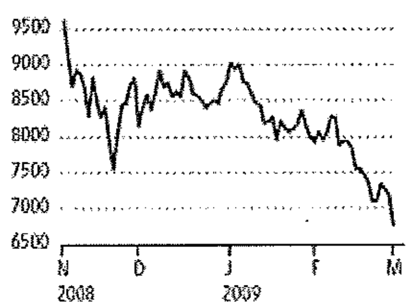
As the Dow keeps dropping, the President is running out of people to blame.

As 2009 opened, three weeks before Barack Obama took office, the Dow Jones Industrial Average closed at 9034 on January 2, its highest level since the autumn panic. Yesterday the Dow fell another 4.24% to 6763, for an overall decline of 25% in two months and to its lowest level since 1997. The dismaying message here is that President Obama's policies have become part of the economy's problem.

Americans have welcomed the Obama era in the same spirit of hope the President campaigned on. But after five weeks in office, it's become clear that Mr. Obama's policies are slowing, if not stopping, what would otherwise be the normal process of economic recovery. From punishing business to squandering scarce national public resources, Team Obama is creating more uncertainty and less confidence—and thus a longer period of recession or subpar growth.

Financial Confidence

Dow Jones Industrial Average from Election Day, Nov. 4, 2008-March 3, 2009



Source: WSJ Market Data Group

The Democrats who now run Washington don't want to hear this, because they benefit from blaming all bad economic news on President Bush. And Mr. Obama has inherited an unusual recession deepened by credit problems, both of which will take time to climb out of. But it's also true that the economy has fallen far enough, and long enough, that much of the excess that led to recession is being worked off. Already 15 months old, the current recession will soon match the average length—and average job loss—of the last three postwar downturns. What goes down will come up—unless destructive policies interfere with the sources of potential recovery.

And those sources have been forming for some time. The price of oil and other commodities have fallen by two-thirds since their 2008 summer peak, which has the effect of a major tax cut. The world is awash in liquidity, thanks to monetary ease by the Federal Reserve and other central banks. Monetary policy operates with a lag, but last year's easing will eventually stir economic activity.

Housing prices have fallen 27% from their Case-Shiller peak, or some two-thirds of the way back to their historical trend. While still high, credit spreads are far from their peaks during the panic, and corporate borrowers are again able to tap the credit markets. As equities were signaling with their late 2008 rally and January top, growth should under normal circumstances begin to appear in the second half of this year.

So what has happened in the last two months? The economy has received no great new outside shock. Exchange rates and other prices have been stable, and there are no security crises of note. The reality of a sharp recession has been known and built into stock prices since last year's fourth quarter.

What is new is the unveiling of Mr. Obama's agenda and his approach to governance. Every new President has a finite stock of capital—financial and political—to deploy, and amid recession Mr. Obama has more than most. But one negative revelation has been the way he has chosen to spend his scarce resources on income transfers rather than growth promotion. Most of his "stimulus" spending was devoted to social programs, rather than public works, and nearly all of the tax cuts were devoted to income maintenance rather than to improving incentives to work or invest.

His Treasury has been making a similar mistake with its financial bailout plans. The banking system needs to work through its losses, and one necessary use of public capital is to assist in burning down those bad assets as fast as possible. Yet most of Team Obama's ministrations so far have gone toward triage and life support, rather than repair and recovery.

AIG yesterday received its fourth "rescue," including $70 billion in Troubled Asset Relief Program cash, without any clear business direction. Citigroup's restructuring last week added not a dollar of new capital, and also no clear direction. Perhaps the imminent Treasury "stress tests" will clear the decks, but until they do the banks are all living in fear of becoming the next AIG. All of this squanders public money that could better go toward burning down bank debt.

The market has notably plunged since Mr. Obama introduced his budget last week, and that should be no surprise. The document was a declaration of hostility toward capitalists across the economy. Health-care stocks have dived on fears of new government mandates and price controls. Private lenders to students have been told they're no longer wanted. Anyone who uses carbon energy has been warned to expect a huge tax increase from cap and trade. And every risk-taker and investor now knows that another tax increase will slam the economy in 2011, unless Mr. Obama lets Speaker Nancy Pelosi impose one even earlier.

Meanwhile, Congress demands more bank lending even as it assails lenders and threatens to let judges rewrite mortgage contracts. The powers in Congress—unrebuked by Mr. Obama—are ridiculing and punishing the very capitalists who are essential to a sustainable recovery. The result has been a capital strike, and the return of the fear from last year that we could face a far deeper downturn. This is no way to nurture a wounded economy back to health.

Listening to Mr. Obama and his chief of staff, Rahm Emanuel, on the weekend, we couldn't help but wonder if they appreciate any of this. They seem preoccupied with going to the barricades against Republicans who wield little power, or picking a fight with Rush Limbaugh, as if this is the kind of economic leadership Americans want.

Perhaps they're reading the polls and figure they have two or three years before voters stop blaming Republicans and Mr. Bush for the economy. Even if that's right in the long run, in the meantime their assault on business and investors is delaying a recovery and ensuring that the expansion will be weaker than it should be when it finally does arrive.

The Dallas Morning News
Texas' Leading Newspaper Dallas, Texas, Wednesday, March 4, 2009 dallasnews.com

Dallas Fed estimates Texas may reach 8% unemployment

By BRENDAN CASE
The Dallas Morning News

Texas could lose nearly 300,000 jobs this year and see its unemployment rate reach about 8 percent, according to an updated estimate by the Federal Reserve Bank of Dallas.

"Unfortunately, it looks like it's going to be pretty sharp based on the leading indicators," said Keith Phillips, a Dallas Fed economist who is based in San Antonio, referring to the employment decline he is forecasting.

If Phillips is right—and many economists aren't convinced—Texas would be in for a much more painful year than expected.

The state was already losing jobs in late 2008, and analysts say additional cuts are likely across a wide range of industries. Some sectors stand out as more vulnerable than others.

"Clearly, the construction industry and the oil and gas sector are going to take some big hits, and finance," said Waco economist Ray Perryman.

The 296,000 job losses Phillips is forecasting for this year would mean a 2.8 percent decline in Texas payroll employment between December 2008 and December 2009—the fastest rate of job loss since 1986.

That would be an even swifter rate of decline than the 2.2 percent fall in employment in 2008 for the U.S. economy as a whole, which lost nearly 3 million jobs last year.

Dana Johnson, chief economist at Dallas-based Comerica Inc., estimates that the U.S. economy could see another 2.2 percent fall in employment this year, with a somewhat smaller decline for Texas.

"Broadly speaking, I think Texas is going to perform about the same or a little bit better than the U.S. economy," Johnson said. "In the U.S., I think we'll have some pretty gargantuan losses in the beginning of the year, and then I think things will get a little bit better."

Economic uncertainty

Texas added jobs during most of 2008. The unemployment rate was 6 percent in December, more than a percentage point below the national average.

But the Texas labor market weakened in the second half of the year. Now economists are trying to divine the state's economic future amid mind-bending uncertainty in the U.S. and the rest of the world.

At the Dallas Fed, Phillips' forecasts have been getting gloomier as the economy continues to weaken.

Late last year, he was forecasting a 1.5 percent decline in Texas jobs during 2009. In January, he was forecasting a 2.2 percent decline for this year.

Now he sees Texas losing jobs at the highest rate since the bust of the 1980s, when the job base shrank by more than 3 percent in 1986.

"With the deepening of the financial crisis, the weakening energy sector and the fall in exports to the world economy, Texas has been dragged into the recession," he said.

Still, Phillips' forecast is significantly bleaker than those of other analysts.

Texas Comptroller Susan Combs predicted earlier this year that the state could lose 111,000 jobs during the first half of the year, with the negative trend reversing toward the end of the year.

"There are different calculations out there," said R.J. DeSilva, a spokesman for Combs. "We came up with ours based on national projections and what we've seen in terms of certain sectors in the economy."

Ana Orozco, an economist with IHS Global Insight, an economic research and forecasting firm, doesn't have a prediction for December 2009 alone. But she says Texas employment during the last three months of 2009 could be about 1.7 percent below its level in the last three months of 2008.

Significant revisions

Perryman, the Waco economist, said last month that he anticipated a "pretty dismal" first half of 2009, adding that job growth later in the year would give the state a modest net gain on the year as a whole.

Now he says he wants to review potentially significant revisions to 2008 jobs data, which are scheduled for release Thursday.

"They could have a material effect on everyone's projections," he said. "It will give us a sense of some of the patterns and trends we're in right now."

Phillips said the Dallas Fed's Texas Leading Index, which is designed to shed light on the future of the state economy, has been in a nose dive recently.

The index tracks initial jobless claims; a help-wanted index; average weekly hours worked in manufacturing; oil prices; oil and gas well permits; an index of Texas stocks; a trade-weighted value of the dollar; and a U.S. economic index.

"We had a lot of positive factors beginning last year that helped us have pretty good job growth," Phillips said, pointing to higher energy prices, strong exports and a relatively healthy tech sector.

"All those things kind of changed in the second half of the year," he said. "After September, the financial crisis really spread to all regions."